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The oil situation is now being covered mainly in *International Oil Developments*, published each Thursday morning.

Note: Comments and queries regarding this publication are welcomed. They may be directed to Mrs.

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ECONOMIC INTELLIGENCE WEEKLY

Articles

RECORD WORLD GRAIN OUTPUT FORECAST FOR 1974/75

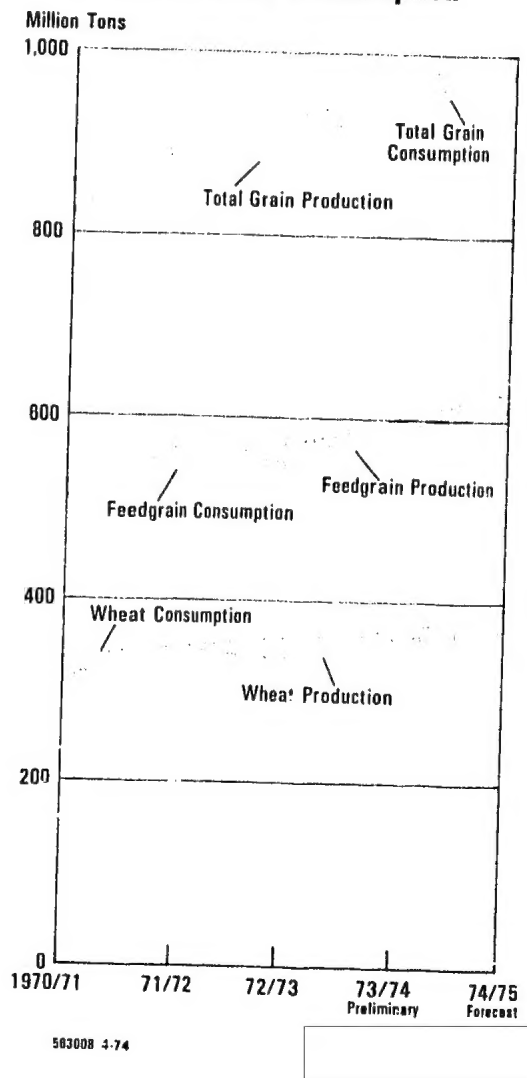
World grain production for 1974/75 will reach a new high of 997 million tons, an increase of 3%, according to USDA's preliminary forecast. Output of feedgrains is expected to increase 4% and wheat 2%. The forecast does not cover rice and certain minor grains.

The United States will account for most of the projected 31 million-ton increase. Increases in other Free World countries should be offset by a decline in Soviet output from last fall's record harvest.

Consumption will increase only about 18 million tons, according to the USDA, in contrast to the 33 million-ton average increment of recent years. Even if this low consumption estimate holds, the grain market probably will remain tight during most of 1974/75 because of the urgent need to rebuild stocks. Grain stocks are at the lowest level in more than 25 years.

The forecast of an excess of production over consumption in 1974/75 may not pan out. Major uncertainties in the USDA forecast, apart from the assumption of normal weather conditions, include:

World Grain Production and Consumption



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- whether a world record grain yield will be achieved in a year of nitrogen fertilizer shortages and high fuel costs,
- whether the projected increase of 2% in the total area seeded to grain will materialize, and
- whether balance-of-payments problems, depressed economic activity, and higher grain prices will reduce the growth of grain consumption to a rate less than the growth of world population.

A production shortfall by any major producer or an unanticipated rise in consumption would put intense pressure on supplies and prices because, for the first time, exports must be largely met out of the current year's production.

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CANADA: FERTILIZER EXPORTS TO BOOM

Canada is on the threshold of a rapid expansion of nitrogen fertilizer capacity designed largely to meet US demand. The expansion equals 10% of the worldwide growth in capacity that some industry observers estimate will be needed by 1980. Most of the Canadian growth will take place in Alberta. The province is near US midwestern markets and has extensive deposits of natural gas -- used as a feedstock to produce ammonia for nitrogen-based fertilizers.

Five large new projects are planned or under consideration:

- A US-Canadian consortium has applied to Edmonton for permission to construct the world's largest fertilizer facility -- a \$325 million complex of four plants to produce 5,000 tons of ammonia daily, which will be piped 1,200 miles to the US midwest. The first two plants are expected to come on stream in 1977.
- Alberta Gas Chemicals, Ltd. is planning a \$130 million fertilizer complex with a daily capacity of 3,000 tons of ammonia and 1,500 tons of urea, to be completed in 1976-77.
- Pan Canadian Petroleum and Tyler Corp. of the United States will soon start constructing a \$45 million ammonia plant with capacity of 1,200 tons per day. The plant is scheduled for completion in 1976.

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- Sherritt Gordon Mines, Ltd. plans to expand ammonia production capacity to 1,500 tons daily and urea capacity to 1,200 tons daily by 1977, at a cost of \$70 million.
- A Canadian-US group plans to build an \$80 million fertilizer plant, which would begin producing 1,200 tons of ammonia and 1,500 tons of urea daily in 1976.

By 1977, Canada's ammonia production capacity should have quadrupled to 12,700 tons per day. Meanwhile, US ammonia production is expected to grow slowly because of shortages of natural gas.

The proliferation of Canadian fertilizer plants fits in with both provincial and national development policies. Edmonton is eager to broaden the province's industrial base by moving heavily into petrochemicals. In addition to the fertilizer plants, Alberta officials are studying proposals by US and Canadian companies for other large petrochemical projects costing \$1 billion. The expansion of petrochemical capacity also is in accord with Ottawa's desire that Canada do more processing of its natural resources before export.

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SOVIET-OCCIDENTAL CHEMICAL DEAL*

Occidental Petroleum's agreement with the USSR for the sale of 10 chemical plants may have fallen through, although the large-scale barter of fertilizers under the April 1973 pact still seems firm.

The initial agreement called for a 20-year exchange of Occidental phosphoric acid for Soviet ammonia, urea, and potash -- an exchange expected to total \$3.5 billion to \$4 billion each way. Occidental also agreed to supply technology and equipment for a complex of 10 chemical plants -- 8 to produce ammonia and 2 for urea -- and a pipeline to deliver ammonia from a complex at Kuybyshev to a port on the Black Sea. The technology, equipment, and pipeline were valued at \$400 million to \$500 million and were to be repaid with fertilizer, since the Soviets insisted on a self-liquidating agreement. To cover equipment purchases from its own suppliers, Occidental obtained a preliminary commitment from Eximbank for \$180 million and a matching commitment from a US bank consortium.

* This is the third of a series of articles on the current status of US-Soviet economic relations.

SECRET**Problems**

The USSR reportedly is holding up on the project for the 10 chemical plants pending investigation of their cost and requirements for financing. Moscow has expressed dissatisfaction with the rapid rise in prices for equipment and materials and seems worried about Occidental's ability to finance the plants.

Recently, the Soviets have been negotiating directly with M.W. Kellogg Co., which was expected to be Occidental's supplier for the ammonia plants and holds the technology best known by the Soviets. The USSR has also requested bids from French and Japanese firms for the ammonia plants, probably involving Kellogg technology. A British firm has been asked to bid on eight urea plants, possibly to replace the two plants proposed in the Occidental agreement.

Outlook

American technology may still win the deals for Kellogg — particularly since the USSR now seems willing and able to pay cash when its demands for credit terms are not met. But Occidental seems definitely out, so far as the chemical plants go.

The chances for US suppliers are strengthened by the USSR's preference for US chemical technology, demonstrated by recent agreements with two other American firms.

- Lummus recently signed a \$45 million contract with the USSR for an acetic acid plant that would use Monsanto technology and would be partly financed by Eximbank.
- PPG Industries, Inc. has signed a letter of intent to aid the USSR in the development of a large complex for the production of plastic resins and related materials.

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WESTERN EUROPE AND JAPAN COPE WITH OIL BILLS

Western Europe and Japan are following sharply different courses in dealing with their 1974 oil import bills. The recent announcement that the United Kingdom will negotiate a record \$2.5 billion Eurodollar loan brings planned British, French, and Italian external borrowing — largely to finance oil-induced balance-of-payments deficits — to about \$7 billion.

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Japan has not borrowed on a substantial scale, despite the expected \$13 billion increase in its oil import bill; instead, Tokyo is mounting a major export drive.

The loans already initiated by the United Kingdom, France, and Italy would finance about 40% of the increase in their 1974 oil bills. London has indicated that it will seek additional funds later this year [redacted]

[redacted] These three countries should be able to secure medium- and long-term financing to cover almost all of their additional foreign exchange requirements.

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Tokyo's steps to reduce capital outflows and induce firms to borrow abroad are inadequate to finance much of the increase in oil imports. Had Tokyo intended to rely on external loans, it presumably would have begun negotiations by now. Instead, the Japanese are counting on sharply increased exports of items such as autos, electronics, and steel to raise export earnings by about a third this year. To the extent that these earnings fall short, Japan can fall back on its extensive foreign reserve holdings and still will have the option of increasing foreign borrowing. [redacted]

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PERON AND THE ARGENTINE ECONOMY*

Argentina's recent success in increasing production and exports and in reducing inflation is being undercut by declining investment incentives and growing domestic shortages. Private foreign capital is particularly nervous under Peron's populist policies.

GDP grew nearly 5% in 1973, led by a 10% increase in agricultural production. Manufacturing grew by a moderate 7%. Because of inadequate financing for public projects and a poor climate for private investment, construction dropped more than 11%; mining and petroleum output fell nearly 4%. A substantial trade surplus of \$900 million resulted mainly from good harvests and high world food prices. The Peronist regime brought inflation practically to a halt through tight wage and price controls. The controls, however, squeezed corporate profits, led to sharp declines in inventories, and discouraged new investment.

In January, the government gave business a shot in the arm by adjusting exchange rates and tariffs to compensate for increases in the prices of

* For additional details, see the forthcoming OER publication on Argentina's Peronist economic policies.

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Argentina: Percent Change in GDP

	1972	1973
Gross domestic product	3.8	4.8
Agriculture	-4.5	9.8
Crops	-8.7	15.5
Livestock	3.3	2.9
Mines and quarries	2.0	-3.9
Petroleum and natural gas	2.2	-1.6
Manufacturing	7.2	6.8
Construction	4.3	-11.2
Private	-4.3	1.1
Public	13.6	-22.4
Services	3.6	3.5

imported raw materials. This action was neutralized last week by a 13% hike in the minimum wage. Price controls are expected to remain firm for the rest of 1974, whereas further wage increases are likely. The combination of higher wage bills and sticky prices, together with pervasive terrorism and growing restrictions on foreign investment, will further depress profits.

The financing requirements of Peron's industrial development program and expanded governmental services will mean continued large budgetary deficits. The government will continue to promote aggressively the export of manufactured goods through generous export credit guarantees and expanded bilateral trade agreements. This export program diverts supplies from domestic markets, increases the current crunch on inventories of raw materials, and encourages increased black market activity.

Despite the emphasis on manufactures, economic performance will remain highly dependent on agricultural production, which accounts for 80% of Argentina's foreign exchange earnings. The balance of payments should be in good shape if harvests of coarse grains offset the shortfall in the recent wheat harvest and if world prices remain high. Argentina would then have enough foreign exchange in 1974 to cover increased petroleum and gas imports of \$600 million, debt service payments of around \$800 million, and some of the capital requirements of Peron's ambitious development program.

Peron's economic populism and statist controls will help keep GDP growth closer to 4%-5% than the 7% called for by government planners and will put business under added pressure. Most US subsidiaries are continuing to hold back on new investment - just as they did in 1973.



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SECRET**Notes****Another Record German Trade Surplus**

Bonn finally announced yesterday a new record trade surplus of \$1.8 billion (not seasonally adjusted) in February, achieved in the face of sharply higher oil prices. This compares with a surplus of \$640 million in February 1973 and a previous record surplus of \$1.6 billion in October 1973. Bonn apparently had delayed its announcement for nearly two weeks in an effort to prevent further upward pressure on the mark [redacted]

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Joint US-Zairian Aluminum Venture

Reynolds Aluminum has agreed in principle to a joint venture with Zaire to establish a sizable aluminum industry. Plans call for the processing of Zairian bauxite into alumina and aluminum using low-cost power from the Inga Dam, now under construction. Reynolds will build an alumina plant and an adjacent aluminum reduction plant with a capacity of 350,000 tons. These plants, costing between \$550 million and \$600 million, are scheduled for completion in 1978. Fabricating facilities will be added later. [redacted]

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Egyptians Dissatisfied with Soviet Civil Aircraft

Egypt is trying to get rid of its eight TU-154 aircraft, the only ones held outside the Communist world. Egyptair reports high operating costs and technical problems with the TU-154. Moreover, Moscow has been slow in supplying spare parts and service. Because of potential embarrassment, Moscow probably will settle for the transfer of the aircraft to Aeroflot. [redacted]

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British Raise Food Subsidies

The \$1.2 billion increase in food price subsidies announced in Britain's new budget is expected to cut the overall rise in food prices by 6 percentage points in 1974 and hold the rise in the cost of living to 15%. Funds are provided to stabilize the prices of bread, margarine, and sugar and to lower the price of milk - already subsidized - by 2-1/2 cents per pint. Segments of the press are complaining that the new subsidies will aggravate inflation in the long run by stimulating demand but not supply. [redacted]

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Iran Eases Pakistani Oil Payments

Iranian commitments to extend credits, increase investments in Pakistan, and buy more Pakistani goods were announced on 31 March following a three-day meeting between the Shah and Premier Bhutto. Pakistan will use the credits to ease the impact of increased outlays for Iranian petroleum. Terms were not revealed. They may be similar to Iran's recent agreement with India under which payments for Iranian oil will be stretched out over 10 years and carry a 2.5% interest rate.

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China Buying US Equipment to Expand Iron Ore Mines

China recently has purchased \$19 million worth of large excavators and blast hole drilling equipment from US firms to expand iron ore production for the An-shan steel mills. Formerly self-sufficient in iron ore production, China now imports a million tons a year from Australia.

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INTERNAL ECONOMIC INDICATORS

GNP*

Constant Market Prices

	Latest Quarter	Percent Change from Previous		Average Annual Growth Rate Since		
		Quarter	1970	1 Year Earlier	Previous Quarter	
United States	73 IV	0.4	4.7	4.0	1.5	
Japan	73 IV	1.4	8.3	7.3	5.8	
West Germany	73 IV	-0.1	3.1	3.4	-0.3	
France	73 III	0.9	5.6	6.1	3.8	
United Kingdom	73 III	1.3	3.9	6.0	5.2	
Italy	73 I	0.8	3.1	5.2	3.4	
Canada	73 IV	2.8	6.1	7.2	11.6	

WHOLESALE PRICES

Industrial

	Latest Month	Percent Change from Previous		Average Annual Growth Rate Since		
		Month	1970	1 Year Earlier	3 Months Earlier	
United States	Feb 74	1.4	7.4	17.6	14.8	
Japan	Feb 74	3.9	11.3	37.0	19.7	
West Germany	Dec 73	0.9	5.3	8.8	11.0	
France	Jan 74	5.3	10.6	26.6	50.0	
United Kingdom	Feb 74	2.9	9.3	15.5	31.3	
Italy	Nov 73	1.6	9.0	21.1	17.5	
Canada	Dec 73	0.6	8.5	18.3	19.5	

INDUSTRIAL PRODUCTION*

	Latest Month	Percent Change from Previous		Average Annual Growth Rate Since		
		Month	1970	1 Year Earlier	3 Months Earlier**	
United States	Feb 74	-0.6	4.8	1.6	-4.0	
Japan	Feb 74	-0.5	8.2	8.7	-2.9	
West Germany	Dec 73	0.9	4.4	6.2	9.0	
France	Jan 74	4.6	7.0	4.6	3.4	
United Kingdom	Jan 74	-6.7	0.1	-7.0	-17.7	
Italy	Dec 73	-7.5	4.4	12.8	22.3	
Canada	Dec 73	-0.1	6.3	4.7	9.9	

CONSUMER PRICES

	Latest Month	Percent Change from Previous		Average Annual Growth Rate Since		
		Month	1970	1 Year Earlier	3 Months Earlier	
United States	Feb 74	1.3	5.6	10.1	12.1	
Japan	Jan 74	4.3	10.2	23.1	41.9	
West Germany	Jan 74	0.7	6.2	7.4	11.8	
France	Feb 74	1.3	7.3	11.5	15.6	
United Kingdom	Feb 74	1.7	9.5	13.2	19.0	
Italy	Dec 73	1.4	7.7	12.5	14.5	
Canada	Feb 74	1.0	5.8	9.6	9.9	

RETAIL SALES*

Current Prices

	Latest Month	Percent Change from Previous		Average Annual Growth Rate Since		
		Month	1970	1 Year Earlier	3 Months Earlier**	
United States	Feb 74	-0.7	9.8	6.0	-3.4	
Japan	Nov 73	3.4	14.6	27.4	32.0	
West Germany	Dec 73	0.5	7.8	5.8	7.6	
France	Nov 73	-2.4	5.6	15.2	20.1	
United Kingdom	Nov 73	0.7	12.1	14.8	21.9	
Italy	Aug 73	6.7	12.4	19.0	5.0	
Canada	Dec 73	-0.9	10.6	13.7	9.3	

MONEY SUPPLY*

	Latest Month	Percent Change from Previous		Average Annual Growth Rate Since		
		Month	1970	1 Year Earlier	3 Months Earlier	
United States	Feb 74	1.2	7.4	6.1	9.2	
Japan	Dec 73	0.1	17.5	16.7	14.7	
West Germany	Dec 73	0.9	9.1	0.2	5.1	
France	Dec 73	5.0	13.2	9.7	14.2	
United Kingdom	Feb 74	-0.5	9.0	3.8	0.2	
Italy	Oct 73	1.6	20.7	23.0	21.4	
Canada	Feb 74	0	13.0	11.6	13.3	

MONEY-MARKET RATES

		Percent Rate of Interest				
Representative Rates		Latest Date	1 Year Earlier	3 Months Earlier	1 Month Earlier	
United States	Prime finance paper	15 Mar	7.75	6.63	8.75	7.38
Japan	Call money	8 Mar	12.50	5.50	10.00	12.00
West Germany	Interbank loans (3 Months)	15 Mar	11.13	8.44	13.00	10.63
France	Call money	15 Mar	12.13	7.50	11.88	12.00
United Kingdom	Local authority deposits	15 Mar	15.50	7.61	15.94	15.69
Canada	Finance paper	15 Mar	8.38	5.13	9.50	8.50
Euro-Dollars	Three-month deposits	15 Mar	8.88	8.63	11.00	8.31

*Seasonally adjusted.
 **Average for latest 3 months compared with average for previous 3 months.

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EXTERNAL ECONOMIC INDICATORS

EXPORTS*

f.o.b.

	Latest Month	Cumulative		
		Million US \$		Percent Change
		1973	1972	
United States	Feb 74	7,010	70,790	43.8
Japan	Feb 74	3,031	35,989	28.9
West Germany	Feb 74	0,407	67,043	44.8
France	Feb 74	3,412	36,074	39.0
United Kingdom	Feb 74	2,614	28,380	24.1
Italy	Dec 73	2,553	22,240	19.4
Canada	Jan 74	2,444	25,197	24.3

EXPORT PRICES

US \$

	Latest Month	Percent Change			Average Annual Growth Rate Since	
		From Previous Month		1970	1 Year Earlier	3 Months Earlier
		Month	Month			
United States	Jan 74	0.6	10.2	26.0	27.5	
Japan	Nov 73	-0.8	13.2	27.4	11.0	
West Germany	Dec 73	-0.8	12.4	25.7	-18.3	
France	Oct 73	2.9	15.9	31.9	15.7	
United Kingdom	Dec 73	0.1	8.7	17.3	12.4	
Italy	Oct 73	2.1	11.0	23.7	29.1	
Canada	Nov 73	4.9	9.5	22.5	42.9	

IMPORTS*

f.o.b.

	Latest Month	Cumulative		
		Million US \$		Percent Change
		1973	1972	
United States	Feb 74	7,390	69,076	24.3
Japan	Feb 74	4,085	32,314	89.5
West Germany	Feb 74	4,376	51,844	35.9
France	Feb 74	3,714	35,272	39.7
United Kingdom	Feb 74	3,589	33,885	37.6
Italy	Dec 73	2,973	24,795	44.0
Canada	Jan 74	2,226	23,304	23.6

EXPORT PRICES

National Currency

	Latest Month	Percent Change			Average Annual Growth Rate Since	
		From Previous Month		1970	1 Year Earlier	3 Months Earlier
		Month	Month			
United States	Jan 74	0.6	10.2	26.6	27.5	
Japan	Nov 73	3.6	4.8	14.9	34.1	
West Germany	Dec 73	2.1	2.4	4.3	17.6	
France	Oct 73	1.8	6.6	10.7	34.9	
United Kingdom	Dec 73	3.1	9.8	18.8	33.4	
Italy	Oct 73	2.4	8.3	20.4	17.0	
Canada	Nov 73	4.6	8.0	24.5	40.1	

TRADE BALANCE*

f.o.b./f.o.b.

	Latest Month	Cumulative (Million US \$)			
		Million US \$	1973	1972	Change
United States	Feb 74	220	1,714	-8,332	8,046
Japan	Feb 74	-453	3,075	8,854	-5,178
West Germany	Feb 74	2,091	15,999	8,735	7,264
France	Feb 74	-303	1,402	1,129	273
United Kingdom	Feb 74	-975	-5,495	-1,749	-3,746
Italy	Dec 73	-420	-2,555	1,405	-3,961
Canada	Jan 74	218	1,892	1,414	478

IMPORT PRICES

National Currency

	Latest Month	Percent Change			Average Annual Growth Rate Since	
		From Previous Month		1970	1 Year Earlier	3 Months Earlier
		Month	Month			
United States	Jan 74	3.7	14.3	34.4	58.6	
Japan	Nov 73	3.7	4.6	19.8	31.0	
West Germany	Dec 73	4.7	3.3	13.8	54.2	
France	Oct 73	-1.5	5.3	14.3	35.2	
United Kingdom	Dec 73	5.2	16.4	43.1	53.1	
Italy	Oct 73	3.4	14.0	38.7	30.8	
Canada	Nov 73	0.3	5.5	13.0	8.1	

BASIC BALANCE**

Current and Long-Term-Capital Transactions

	Latest Period		Cumulative (Million US \$)		
		Million US \$	1973	1972	Change
United States *	73 IV	200	1,186	-9,838	11,024
Japan	Feb 74	-1,890	-9,702	2,137	-11,839
West Germany	Dec 73	193	3,950	4,566	-616
France	73 III	-1,482	-2,039	-202	-1,838
United Kingdom	73 III	-521	-1,840	-1,252	-587
Italy	72 IV	800	N.A.	2,983	N.A.
Canada	73 III	238	267	574	-308

EXCHANGE RATES

Spot Rate

As of 29 March 74

	US \$ Per Unit	Percent Change from			
		Dec 66		18 Dec 1971	
		Dec 66	1971	1971	1974
Japan (Yen)	0.00362	31.39	11.64	-4.68	0.42
West Germany (Deutsche Mark)	0.39570	57.40	27.52	11.75	1.31
France (Franc)	0.20960	3.81	6.45	-4.90	0.48
United Kingdom (Pound Sterling)	2.39000	-14.36	-8.27	-2.88	2.11
Italy (Lira)	0.00161	0.31	-6.63	-9.27	0.19
Canada (Dollar)	1.02840	11.49	3.07	3.08	-0.14

OFFICIAL RESERVES

Billion US \$

	Latest Month	Billion US \$			
		End of		1 Year Earlier	
		Jan 74	Jun 1970	1973	3 Months Earlier
United States	Jan 74	14.6	18.3	13.1	14.4
Japan	Mar 74	12.2	4.1	18.1	12.2
West Germany	Jan 74	32.2	8.8	23.7	35.0
France	Feb 74	7.5	4.4	19.6	8.6
United Kingdom	Feb 74	6.0	2.8	5.9	6.6
Italy	Jan 74	6.0	4.7	5.8	6.2
Canada	Feb 74	6.2	4.3	6.2	5.7

TRADE-WEIGHTED EXCHANGE RATES***

As of 29 March 74

	US \$ Per Unit	Percent Change from			
		Dec 66		18 Dec 1971	
		Dec 66	1971	1971	1974
United States	-0.17336	-7.92	-1.26	-0.49	
Japan	0.19556	5.69	-6.28	0.15	
West Germany	0.32978	15.89	10.86	0.55	
France	-0.19272	-5.84	-8.27	-0.49	
United Kingdom	-0.33849	-19.66	-5.29	1.49	
Italy	-0.21533	-20.23	-13.36	-0.69	
Canada	0.08104	1.51	3.15	-0.40	

*Seasonally adjusted.

**Converted into US dollars at current market rates of exchange.

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***Weighting is based on each listed country's trade with 16 other industrialized countries to reflect the competitive impact of exchange-rate variations among the major currencies.